

Message Text

SECRET

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ACTION INR-07

INFO OCT-01 AF-06 EUR-12 NEA-09 ISO-00 SSO-00 NSCE-00

INRE-00 PM-03 NSC-05 SP-02 SS-15 CIAE-00 NSAE-00

DODE-00 PRS-01 SAB-01 IO-10 EB-07 /079 W

----- 093756

O 031400Z APR 75

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 812

AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY KHARTOUM

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MOSCOW

AMEMBASSY MUSCAT

AMEMBASSY RABAT

AMEMBASSY SANAA

AMEMBASSY TEL AVIV

AMEMBASSY TRIPOLI

AMEMBASSY TUNIS

S E C R E T SECTION 1 OF 2 JIDDA 2425

E.O. 11652: GDS

TAGS: PFOR, PINR, XF

SUBJECT: COMMENTS ON ESTIMATES FOR MIDDLE EAST WAR

REF: (A) STATE 71859 NOTAL; (B) JIDDA A-23, MARCH 27, 1975

SUMMARY: IN FEAR OF AN ISRAELI MILITARY MOVE EGYPT AND

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SYRIA MIGHT TRY TO PERSUADE SAUDI ARABIA TO PRESSURE

USG AND CUT BACK PRODUCTION. WE THINK SAG UNLIEKLY TO COOPERATE AT LEAST THIS YEAR. OIL BOYCOTT CERTAIN IF WAR COMES AND WE GIVE MASSIVE SUPPORT TO ISRAEL; IF WE DO NOT, AND IF ARABS DO REASONABLY WELL, CHANCES OF AVOIDING IT WILL DEPEND ON CARROTS AND STICKS GIVEN AMBASSADOR AND ON HIS SKILL IN USING THEM.

IN STAGE OF PRELIMINARY TENSION BEFORE EITHER PARTY MIGHT START A WAR, SAG MAY INFORM US THAT ISRAEL CAN BE BROUGHT TO THE PEACE TABLE ONLY IF THE U.S. IS WILLING TO CONSIDER CUTTING AID OR MILITARY RESUPPLY. IN THIS CASE, SAG COULD WAR U.S. AND THEN START TO APPLY PRESURE VIA PRODUCTION CUTBACKS. SAG MIGHT NOT OPPOSE, EVEN THOUGH IT WOULD BE UNLIKELY TO ORIGINATE, USE OF FINANCIAL POWER OR PRICE HIKES DURING PERIODS OF HEIGHTENING TENSION. WHETHER OR NOT WE WANT TO MAKE ANY CONNECTION BETWEEN MIDDLE EAST PEACE AND PRICE OF OIL, RECENT STATEMENTS BY CROWN PRINCE FAHD AND MINISTER OF STATE SAUD TEND TO PUT FUTURE OIL PRICES IN THIS CONTEXT. END SUMMARY.

1. IF EGYPT AND SYRIA FEARED A PREEMPTIVE ATTACK WAS ABOUT TO TAKE PLACE OR IF FOR THEIR OWN REASONS THEY WISHED TO ESCALATE MILITARY TENSIONS BUT FEARED THIS MIGHT PRECIPITATE AN ISRAELI MILITARY MOVE, THEY MIGHT TRY TO PERSUADE SAG TO CUT PRODUCTION BELOW A LEVEL THAT OTHER NON-ARAB PRODUCERS COULD MAKE UP. WE DOUBT THAT THE SAG WOULD BE PERSUADED - AT LEAST NOT THIS YEAR.

2. IF AN ARAB-ISRAELI WAR BREAKS OUT, THE MOST IMPORTANT FACTOR IN DETERMINING WHETHER A BOYCOTT IS REIMPOSED OR NOT WILL BE THE ACTIONS TAKEN BY THE UNITED STATES. IF WE START SUBSTANTIALLY TO RESUPPLY ISRAEL OR VOTE MASSIVE MILITARY AND ECONOMIC AID FOR IT, WE CAN COUNT ON A BOYCOTT. IF WE DO NOT, THEN THE CHANCES OF AVOIDING THE BOYCOTT IMPROVE. A SECOND FACTOR THEN BECOMES GOVERNING: HOWE WELL THE ARABS DO IN THE WAR - NO MATTER WHO STARTS IT. IF THE ARABS DO POORLY THEN THE CHANCES OF BOYCOTT ARE GOOD. IF THEY DO REASONABLY WELL, THEN THE CHANCES OF AVOIDING THE BOYCOTT DEPENDS TO A LARGE EXTENT ON THE AMBASSADOR'S DIPLOMATIC ABILITY AND ON THE
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CARROTS AND STICKS HE HAS AT HIS DISPOSAL. IF THERE IS A MILITARY STANDOFF, THE THE ABILITY OF THE AMBASSADOR WILL BE OF CRUCIAL IMPORTANCE.

3. THE WAR WILL START PRESUMABLY EITHER AFTER ISRAEL DECIDES THAT U.S. PRESSURE TO RELINQUISH TERRITORY IS ABOUT TO BECOME INTOLERABLE OR AFTER THE ARABS DECIDE THAT ISRAEL WOULD NOT--DESPITE ANY POSSIBLE RESORT TO PRESSURE OR

PERSUASION--RELINQUISH THESE SAME TERRITORIES.

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4. IN EITHER CASE THERE WOULD PROBABLY BE A PRELIMINARY
STAGE DURING WHICH SAUDI ARABIA MIGHT INFORM THE UNITED
STATES THAT ISRAEL COULD BE BROUGHT TO THE PEACE TABLE
ONLY IF THE U.S. ORDERS HER TO DO SO IN THE ROUGHEST TERMS
AND THEN THREATENS AID OR RESUPPLY REPRISALS EITHER IF
JERUSALEM OPS FOR WAR (THE PERCY THEME), OR IF IT CON-

TINUES TO REFUSE TO RELINQUISH THE ARAB LANDS CONQUERED

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IN 1967. SAG COULD FIRST WARN AND THEN START PRODUCTION CUTBACKS IN THIS CASE IF WE PERMITTED THE SITUATION TO DETERIORATE UNOPPOSED BY USG ACTIONS (E.G., FURTHER VISITS BY THE SECRETARY, A NEW CALL FOR GENEVA, OR AN ENTIRELY NEW APPROACH). IN OTHER WORDS, THEY MIGHT TRY TO USE THEIR OIL TO PREVENT WAR. WHILE THE SAUDIS ARE NOT LIKELY TO EMPLOY PRICE HIKE OR FINANCIAL POWER AS POLITICAL WEAPONS DIRECTLY (THIS STILL IS A QUESTION WITH THE NEW SAUDI TEAM IN PLACE) THEY WILL PROBABLY BE LESS INTERESTED IN SUPPORTING MODERATES DURING PERIODS OF HEIGHTENED TENSIONS AND THIS INCLUDES OPEC MEETINGS. THEY WOULD ACQUIESCE IN PRICE HIKE OR EVEN IN BOYCOTTING THE DOLLAR IF OTHERS PROPOSE IT (AND THESE OTHERS WILL CERTAINLY PROPOSE IT DURING A WAR, OR EVEN BEFORE IT AFTER A LONG PERIOD OF RISING TENSIONS).

5. THEIR ACTION IN CASE OF A SATISFACTORY PEACE MIGHT NOW BE DIFFERENT. THIS EMBASSY HAS ALWAYS DISSOCIATED OPEC OIL PRICING POLICY FROM THE MIDDLE EAST SETTLEMENT. THERE ARE TOO MANY COUNTRIES IN OPEC WHICH WISHED HIGHER PRICES AND DID NOT CARE ABOUT PALESTINE: IRAN, VENEZUELA, INDONESIA, NIGERIA. EVEN ALGERIA, KUWAIT AND IRAQ WOULD PROBABLY NOT TRADE MUCH IN OIL PRICES FOR A SATISFACTORY SOLUTION TO THE ISRAEL-ARAB PROBLEM. SAUDI ARABIA NONETHELESS AT VARIOUS TIMES HAS MADE THE CONNECTION. YAMANI HAS TOLD THE AMBASSADOR THAT SAUDI ARABIA WOULD ARGUE STRONGLY THAT THE PRICE OF OIL COULD BE CUT BY THE AMOUNT THE ARABS NOW SPEND ON ARMS IF THERE WERE A PEACE SETTLEMENT - I.E. \$2-3/BARREL. HE AND OTHERS HAVE PUBLICLY CONNECTED OIL PRICES WITH PEACE. BUT THIS DID NOT RING TRUE. SAUDI ARABIA COULD NOT BREAK OIL PRICES BY ITSELF.

6. SIMILAR STATEMENTS HAVE MORE RECENTLY BEEN MADE: PRINCE FAHD HAS SAID TO THE AP THAT "ENERGY IS IMPORTANT TO THE CONTINUITY OF CIVILIZATION AND WILL ASSIST IN ITS DEVELOPMENT AND PROGRESS. IN THE LIGHT OF THIS, COMMERCIAL CONSIDERATIONS WILL CEASE TO EXIST. CONSEQUENTLY METHODS ADOPTED IN RAISING AND LOWERING PRICES WILL DISAPPEAR. IF HUMAN HAPPINESS CONTINUES TO INCREASE WITH RISE IN PRICES THEN PRICES WILL RISE BUT IF THE CONTRARY, THEN

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WE WILL NOT HESITATE TO ASK FOR PRICE CUTS." PRINCE SAUD BIN FAISAL, THE NEW MINISTER OF STATE FOR FOREIGN AFFAIRS, ALSO TOLD NEWS CORRESPONDENTS ON APRIL 1 THAT "THE PRICES OF OIL WERE LINKED TO A NUMBER OF ECONOMIC AND POLITICAL FACTS, INCLUDING THE SITUATION IN THE MIDDLE EAST, AND THAT IF THESE FACTS WERE CHANGED, THEN IT WAS LIKELY THAT A CHANGE WOULD HAPPEN TO THE PRICE OF OIL." (LOCAL NEWS REPORTS).

7. THESE STATEMENTS NOW, HOWEVER, HAVE A NEW, PRACTICAL SIGNIFICANCE :

SAUDI ARABIA IS GOING AHEAD FULL FORCE WITH ITS EXPANSION PLANS. BY THE END OF THIS YEAR IT WILL HAVE A PRODUCTION CAPACITY OF 11.2 MILLION BARRELS/DAY; BY THE END OF 1978 IT SHOULD BE CLOSE TO 15 MILLION. IN OTHER WORDS THIS YEAR, ASSUMING PRODUCTION STAYS CONSTANT, SAUDI ARABIA WILL HAVE FIVE MILLION BARRELS/DAY OF SHUT-IN CAPACITY. THE REST OF OPEC WOULD BE HARD-PRESSED TO CUT BACK THAT MUCH IF SAUDI ARABIA DECIDED TO PRODUCE AT FULL CAPACITY AT A LOWER PRICE. IT COULD "BREAK" OPEC, IF IT WANTED. AND FAHD WAS SPEAKING ON BEHALF OF THE GOVERNMENT (UNFORTUNATELY, NOT A CERTAINTY) SAUDI ARABIA COULD DO THIS IN CONNECTION WITH THE MIDDLE EAST SETTLEMENT.

8. WHETHER WE WANT TO MAKE ANY CONNECTION BETWEEN PEACE AND OIL PRICES OR WHETHER WE WANT TO NEGOTIATE WITH SAUDI ARABIA ON THIS BASIS IS SOMETHING QUITE DIFFERENT. IF WE DO, FAHD HAS SET THE STAGE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: WAR, INTELLIGENCE ASSESSMENTS, POLITICAL SITUATION, BOYCOTTS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975JIDDA02425
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750115-0688
From: JIDDA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750486/aaaadakp.tel
Line Count: 253
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION INR
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: 75 STATE 71859, 75 JIDDA A-23, 75 MARCH 27, 75 1975
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 12 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 JUN 2003 by izenbei0>; APPROVED <05 SEP 2003 by GarlanWA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMMENTS ON ESTIMATES FOR MIDDLE EAST WAR
TAGS: PFOR, PINR, XF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006